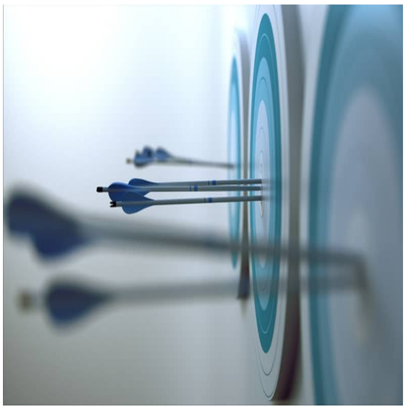

Could This Company Be a Takeover Target?

Description

DHX MEDIA LTD CLASS B (TSX:DHX.B) is the world's leading independent, pure-play children's content company.

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DHX is the owner of the world's largest independent library of children's content at more than 11,800 half-hours, the company is recognized globally for such brands as *Teletubbies*, *Yo Gabba Gabba!*, *Caillou*, *In the Night Garden*, *Inspector Gadget*, *Make It Pop*, *Slugterra,* and the multiple award-winning *Degrassi* franchise.

The company has been aggressively acquiring children's content over the past several years to the point that today, it states that "it would be very difficult for a competitor to replicate our library of assets."

DHX earns its revenues via production fees, advertisements sold through its television station the "Family Channel", merchandising and licensing arrangements, and distribution.

The distribution side of things is where it gets really interesting for this company, because in addition to distributing its content through television broadcast rights, the company has access to additional sources of revenue through the sale of rights for other jurisdictions and secondary platforms.

This means that DHX can generate multiple revenue streams from selling Teletubbies to a U.K. television station, licence the show to another network in Germany, and then licence the same show to a U.K. over-the-top internet platform.

In an age where viewers are increasingly getting their content from non-traditional sources, like **Netflix, Inc.** (NASDAQ:NFLX), Hulu, or even Youtube, DHX effectively has the right to "double-dip" on its distribution rights across viewing platforms.

The company has seen this opportunity translate into earnings as well. In 2016, the company earned $0.09 per share, which was a 38% improvement over the year-ago period.

However, last quarter saw the company miss estimates by 25%, or $0.02, recording $0.06 of net profits versus analyst estimates of $0.08.

The company's shares slumped on the news, which, as it would turn out, has helped to create a buying opportunity for would-be investors.

And then came the announcement by **Walt Disney Co** (NYSE:DIS) in early August.

The Disney deal

On the company's Q2 earnings call, Disney announced it was taking majority control of BAMTech, the streaming technology formerly owned by Major League Baseball.

The company also announced that it will be launching its own multi-sport streaming service early next year as well as its own Disney-branded direct-to-consumer service by 2019.

In conjunction with the move, Disney told analysts that it will soon be pulling all of its movies by from Netflix service.

While there was no specific mention made of pulling children's television content, the series of moves by Disney certainly opens a void in terms of Netflix's current children's programming.

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What does it mean for DHX?

In all likelihood, the phone is probably already ringing at DHX headquarters in Halifax as Netflix looks to shore up its children's content offering.

Moreover, the bold move by Disney to start its own streaming service (Discovery Channel, **Viacom**, and AMD have already followed suit by announcing their own plans for direct-to-consumer in the weeks since the news broke) marks what could be a turning point for the digital media landscape.

If it isn't Netflix calling DHX to work out a deal, it could be any number of digital media companies that are looking to round out their programming with a viable children's offering.

At a market capitalization just above $700 million, it is not unreasonable to expect a larger studio to swoop in and buy DHX outright.

It seems the market is taking note as well. Shares in DHX are up an impressive 24% since the start of July.

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